

## City of Alexandria, Virginia

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## MEMORANDUM

DATE: NOVEMBER 18, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER <sup>PS</sup>

SUBJECT: MONTHLY FINANCIAL REPORT FOR THE PERIOD ENDING  
OCTOBER 31, 2002

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**ISSUE:** Receipt of the City's Monthly Financial Report for the period ending October 31, 2002.

**RECOMMENDATION:** That City Council receive the following Monthly Financial Report for the period ending October 31, 2002.

**DISCUSSION:** This report provides financial information on revenues and expenditures of the General Fund for the period July 1, 2002 through October 31, 2002. This report presents revenues and expenditures for the same period for Fiscal Year 2002 for comparative purposes (Attachments 1 and 2), and also provides a summary of selected economic indicators (Attachment 3) and announced State revenue reductions to the City (Attachment 4). FY 2003 revenues through October 31, 2002 in the amount of \$89.5 million, represent a decrease of 10.3 percent below last year. The difference relates to the timing in receipts for real estate taxes. This revenue recognition pattern is the normal practice in governmental accounting and represents no cause for concern. General Fund expenditures through the end of October total \$109.2 million, or 8.2 percent higher than expenditures at the same time last year.

At this time it is too early to project how overall FY 2003 actual revenues will compare to budgeted revenues. While real estate and personal property (from preliminary billing data) taxes will likely meet or exceed budgeted growth expectations, other local taxes and State aid revenues remain in question. Economic reports from various organizations which collect and issue economic data, such as the U.S. Department of Labor, George Mason University, the Fairfax County government, and the office of the Secretary of Finance of the Commonwealth of Virginia, all indicate that the State and regional economies continue to falter largely due to higher unemployment and reduced consumer and business spending. City employment, office occupancy, home sales, building permit and hotel occupancy rates are all lower than a year ago at this time. In general, these rates have improved since June 30, 2002, but not enough to equal or better the situation a year ago. As a result, and as was the case in FY 2002, City staff will need to continue to monitor revenues very carefully as FY 2003 progresses in order to keep the City's budget in balance. However, because of concerns about the economy and the already announced \$1.3 million in State revenue reductions which will increase when the second round of State

budget cuts is announced in December, I have instituted a selective hiring freeze and have directed the non-public safety departments to develop a plan not to spend 3% of their FY 2003 operating budgets.

**REVENUES (Attachment 1):** As of October 31, 2002, actual General Fund revenues totaled \$89.5 million, a decrease of \$10.3 million, or 10.3 percent, as compared to revenues for the same period last year. Unless otherwise noted, revenues reflect normal trends and represent no cause for concern.

**Real Estate Taxes:** Second half real estate taxes were due November 15. Revenues to date are \$10.4 million lower than collections at this time last year. This is primarily attributable to the timing of early payments from tax service providers. Last year, the City received the second half 2001 real estate tax payment from a single major tax service provider in late October. This year this payment was received in November. Further analysis cannot occur for the remaining 2002 calendar year real estate tax revenues until receipts are tabulated after the November 15 tax due date. As discussed at the recent City Council retreat, current real estate sale trends indicate that calendar 2003 projected tax base growth will likely be higher than budgeted.

**Personal Property Taxes:** Personal property tax bills were mailed in August and were due on October 7, 2002. The FY 2003 Approved Budget includes a \$31.2 million revenue projection for tax revenue collected directly by the City (including \$15.8 million for vehicles and \$15.4 million for businesses) and includes an additional \$22.0 million of intergovernmental revenue that the City collects from the Commonwealth under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA). The State's share of the local personal property tax payment this year is 70.0 percent of most taxpayers' payments, which is the same as last year. The total for all budgeted revenues related to the personal property tax for FY 2003 is \$53.2 million.

Through October 31, the City has collected \$27.5 million in personal property tax revenue and has received reimbursement from the Commonwealth of \$19.4 million for total personal property tax receipts of \$46.9 million. This represents a \$0.8 million increase when compared to receipts collected at the same time last year. It appears that the total budgeted revenues related to the personal property (\$53.2 million) tax will be achieved. However, it is clear from the billings that the rate of assessment growth in the vehicle portion of the tax base has slowed from prior years.

Personal Property Tax (in millions)	Budget FY 2003	Actual to Date FY 2003	Actual to Date FY 2002
City share	\$ 31.2	\$ 27.5	\$ 27.6
Commonwealth reimbursement	<u>22.0</u>	<u>19.4</u>	<u>18.5</u>
Total	\$ 53.2	\$ 46.9	\$ 46.1

**Local Sales and Use Taxes:** Businesses remit sales tax to the Commonwealth within 30 days of the end of the month in which sales occurred. The Commonwealth wires the City's portion of the sales tax approximately one month later. Sales taxes received by the City in October represent revenues collected by merchants in August. Year-to-date revenues, which reflect sales that took place in July and August, continue to show improvement over FY 2002. While revenues for these two months are surprisingly ahead of expectations, it should be noted that sales tax reporting by companies and administration by the Virginia Department of Taxation make comparisons for just two months not statistically valid.

**Consumer Utility Taxes:** Consumer utility taxes are collected by the utility companies one month after billing and are remitted to the City the following month. The consumer utility tax revenue in this report represents utility services provided to consumers through August.

**City of Alexandria Consumer Utility Tax Receipts**

Utility	FY 2003 Year to Date Receipts	FY 2002 Year to Date Receipts	Increase/ (Decrease)	Notes
Telephone - Tax on Local Services	\$1,437,975	\$1,412,961	\$25,014	
Electricity	1,451,805	1,399,993	51,812	
Water	533,943	680,964	(147,021)	FY 2002 revenues included one month's revenues paid early
Natural Gas	447,511	444,657	2,854	

**Business License Taxes:** The City's business license tax is due March 1. Collections to date, in the amount of \$1.2 million, represent quarterly payments, filings by new businesses and payments on delinquent accounts.

**Transient Lodging Taxes:** Transient lodging taxes are remitted to the City within one month after collections. Therefore, the revenue reflected in this report represents collections by hotels through September 2002. Collections total \$1.4 million, an increase of \$0.1 million or 7.3 percent. However, since September 2001 included the closing of Reagan National Airport, this 7.3 percent increase is to be expected and was budgeted. The \$1.4 million collected to date remains less than the \$1.5 million collected for the same period in FY 2001. Full service and mid range hotels experienced a slight increase in revenue, but budget and extended stay hotels are still somewhat lower than last year. The City's overall revenues show an increase because a new hotel opened in August 2001.

**Real Estate Recordation Taxes:** Real estate recordation tax revenues are collected by the Clerk of the Circuit Court and remitted to the City the following month. Collections, in the amount of \$0.8 million, increased \$0.2 million, or 26.4 percent, over collections at this time last year. The

increase is primarily attributable to residential refinancings due to historically low mortgage interest rates.

**Other Local Taxes:** This category includes bank franchise taxes, telecommunications right-of-way tax, cable TV franchise taxes, daily rental taxes and other miscellaneous taxes. The decrease in revenue to date represents a timing difference in the collection of E-911 taxes.

**Revenue from the Federal Government:** The City's General Fund revenues from the federal government are primarily for federal prisoner per diem. The City has billed \$1.6 million for housing federal prisoners through the period ending October 31, 2002. As of October 31, \$1.3 million has been received. The federal government generally pays the City for housing federal prisoners 45 to 60 days after the end of the billing period.

**Revenue from the Commonwealth:** Although the \$5.2 million in revenues received to date is almost identical to that received for the same period in FY 2002, future revenues from the State in its General Fund and in its Special Revenue Fund will begin to decrease from budgeted levels. This will be due to the budget balancing actions taken in order to address the significant State budget shortfall. Initial State revenue reduction estimates at the State level in FY 2003 to the City of \$1.3 million are detailed in a chart in Attachment 4 (this chart has previously been provided to City Council). These reductions are just the first round of aid reductions the City can expect as the State has not yet fully articulated all of the budget reductions that will be necessary to fully balance its budget. City departments where the reductions have occurred either have prepared, or are currently preparing, savings plans which will identify how those departments will reduce their spending in FY 2003 to adjust to the loss of State revenue in those departments.

In at least one instance, for the Northern Virginia Regional Detention Home (NVDH) a new utilization-based State reimbursement funding formula put in place for FY 2003 will produce more new revenues in FY 2003 than the amount of State revenues projected to be reduced. As a result, the \$0.2 million in previously expected revenue loss for the NVDH will be covered by new revenue generated by the new State formula.

**Fines and Forfeitures:** Increased revenues primarily represent collections for parking tickets and red light fees. These collections were lower in FY 2002 as a result of the events following the events of September 11.

**Licenses and Permits:** Revenues decreased \$0.7 million, or 38.8 percent, below collections at this time last year. This decrease is attributable to fewer new residential and commercial building permits issued in FY 2003 than in FY 2002.

**Charges for Services:** Revenue for charges for services, less refuse fees, increased 14.7 percent as a result of Council action to increase the fees paid by the development community. Refuse fees decreased when compared to last year because of timing difference in payments from tax

service providers. Last year, a single major tax service provider paid the refuse fees in October, several weeks before the due date.

**Revenue from Use of Money and Property:** Year-to-date interest revenues decreased \$0.8 million compared to last fiscal year, largely due to declining market interest rates on City short-term investments. This large decrease in market interest rates is reflected in the federal fund rate reduction from 2.51 percent in October 2001 to 1.76 percent in October 2002. On November 6, 2002, the Federal Reserve lowered interest rates an additional 0.5 percent. As a result, it is expected that interest revenues will fall significantly short of budget expectations in FY 2003.

**Other Revenue:** Other revenues include gifts and donations, damage recoveries and recovered costs.

**EXPENDITURES (Attachment 2):** As of October 31, 2002, actual General Fund expenditures totaled \$109.2 million, an increase of \$ 8.2 million, or 8.2 percent, over expenditures for the same period last year. The Approved General Fund Budget is 6.6 percent higher than FY 2002. Unless noted below, the increase in expenditures over that budgeted is attributable to budgeted expenditures for annual equipment replacement charges made at the beginning of the fiscal year. Except as noted below, this expenditure pattern reflects the Approved FY 2003 Budget.

**Judicial Administration:** Expenditures represents the second quarter payments to regional organizations that provide legal, correctional and animal welfare and control services.

**Other Planning Activities:** General Fund expenditures in this category reflect first half contribution payments to community agencies.

**City Attorney:** Expenditures to date reflect outside legal fees which are budgeted in a non-department account and charged to the City Attorney's office. Staff will recommend an appropriations transfer in the context of the June Transfer Resolution to match these expenditures with budget authority.

**Recreation:** Expenditures reflect seasonal employee costs incurred during the summer.

**School:** The School Administration has reported \$35.9 million in expenses through October 31, 2002. The City's General Fund share of total School Administration budgeted expenditures is approximately 77.8 percent of the total expenditures. This percentage was applied to total school disbursements to estimate school expenditures to date in the amount of \$27.9 million (i.e., 77.8 percent of \$35.9 million).

**Non-Departmental:** General Fund expenditures in this category reflect the City's contributions to the closed public safety pension plan, senior citizens' rent relief, payment for liability

insurance premiums, and the City's share of debt service on the Northern Virginia Transportation District bonds.

**Cash Matches (MH/MR/SA, Human Services, Library and Miscellaneous Grants):** To comply with grant awards, the City's share of funding is transferred from the General Fund to the Special Revenue Fund at the end of the fiscal year.

**ATTACHMENTS:**

Attachment 1 - Comparative Statement of Revenues

Attachment 2 - Comparative Statement of Expenditures & Transfers by Function

Attachment 3 - Selected Economic Indicators

Attachment 4 - State Budget Reductions Affecting the City of Alexandria: FY 2003

**STAFF:**

Mark Jinks, Assistant City Manager for Fiscal and Financial Affairs

D. A. Neckel, Director of Finance

Laura Triggs, Deputy Director of Finance/Comptroller

**CITY OF ALEXANDRIA, VIRGINIA**  
**COMPARATIVE STATEMENT OF REVENUES**  
**GENERAL FUND**  
**FOR THE PERIODS ENDING OCTOBER 31, 2002 AND OCTOBER 31, 2001**

	<b>FY2003 APPROVED BUDGET</b>	<b>FY2003 REVENUES THRU 10/31/02</b>	<b>% OF BUDGET</b>	<b>FY2002 REVENUES THRU 10/31/01</b>
<b>General Property Taxes</b>				
Real Property Taxes.....	\$ 176,572,000	\$ 12,735,382	7.2%	\$ 23,099,694
Personal Property Taxes.....	31,184,000	27,472,518	88.1%	27,621,616
Penalties and Interest.....	1,100,000	352,148	32.0%	383,046
Total General Property Taxes	<u>\$ 208,856,000</u>	<u>\$ 40,560,048</u>		<u>\$ 51,104,356</u>
<b>Other Local Taxes</b>				
Local Sales and Use Taxes.....	\$ 21,300,000	\$ 3,704,609	17.4%	\$ 3,288,817
Consumer Utility Taxes.....	17,100,000	3,871,234	22.6%	3,938,575
Business License Taxes.....	21,900,000	1,193,936	5.5%	971,548
Transient Lodging Taxes.....	5,250,000	1,428,009	27.2%	1,327,800
Restaurant Meals Tax.....	8,700,000	2,099,982	24.1%	1,991,187
Tobacco Taxes.....	1,600,000	434,000	27.1%	416,484
Motor Vehicle License Tax.....	2,300,000	1,910,888	83.1%	1,869,334
Real Estate Recordation.....	1,500,000	849,254	56.6%	671,813
Other Local Taxes.....	4,468,000	561,313	12.6%	852,292
Total Other Local Taxes	<u>\$ 84,118,000</u>	<u>\$ 16,053,225</u>	19.1%	<u>\$ 15,327,850</u>
<b>Intergovernmental Revenues</b>				
Revenue from the Federal Government.....	\$ 4,380,000	\$ 1,284,764	29.3%	\$ 1,310,752
Personal Property Tax Relief from the Commonwealth.....	22,040,000	19,441,642	88.2%	18,536,883
Revenue from the Commonwealth.....	19,485,800	5,162,468	26.5%	5,174,451
Total Intergovernmental Revenues	<u>\$ 45,905,800</u>	<u>\$ 25,888,874</u>	56.4%	<u>\$ 25,022,086</u>
<b>Other Governmental Revenues</b>				
Fines and Forfeitures.....	\$ 3,882,000	\$ 1,415,461	36.5%	\$ 1,239,845
Licenses and Permits.....	4,000,000	1,110,172	27.8%	1,814,725
Charges for City Services.....	9,863,800	2,197,756	22.3%	2,191,067
Revenue from Use of Money & Property.....	6,271,000	2,050,115	32.7%	2,839,921
Other Revenue.....	458,000	217,069	47.4%	231,556
Total Other Governmental Revenues	<u>\$ 24,474,800</u>	<u>\$ 6,990,573</u>	28.6%	<u>\$ 8,317,114</u>
<b>TOTAL REVENUE</b>	<u>\$ 363,354,600</u>	<u>\$ 89,492,720</u>	24.6%	<u>\$ 99,771,406</u>
<b>Appropriated Fund Balance</b>				
General Fund.....	9,816,624	-	0.0%	-
Reappropriation of FY 2002 Encumbrances And Other Supplemental Appropriations.....	-	-	0.0%	-
<b>TOTAL</b>	<u>\$ 373,171,224</u>	<u>\$ 89,492,720</u>	24.0%	<u>\$ 99,771,406</u>

**CITY OF ALEXANDRIA, VIRGINIA**  
**COMPARATIVE STATEMENT OF EXPENDITURES & TRANSFERS BY FUNCTION**  
**GENERAL FUND**  
**FOR THE PERIODS ENDING OCTOBER 31, 2002 AND OCTOBER 31, 2001**

FUNCTION	FY2003	FY2003	% OF	FY2002
	APPROVED BUDGET	EXPENDITURES THRU 10/31/02		EXPENDITURES THRU 10/31/01
Legislative & Executive.....	\$ 4,671,512	\$ 1,430,495	30.6%	\$ 1,318,249
Judicial Administration.....	\$ 26,024,599	\$ 9,327,063	35.8%	\$ 8,383,916
Staff Agencies				
Information Technology Services.....	\$ 5,971,390	\$ 1,563,343	26.2%	\$ 1,964,865
Management & Budget.....	913,849	251,868	27.6%	203,203
Finance.....	7,037,172	2,192,939	31.2%	2,171,109
Real Estate Assessment.....	980,950	242,837	24.8%	243,035
Personnel.....	2,221,865	707,280	31.8%	682,480
Planning & Zoning.....	3,068,776	969,900	31.6%	784,183
Other Planning Activities.....	2,169,245	1,068,056	49.2%	989,313
City Attorney.....	1,402,831	524,188	37.4%	471,586
Registrar.....	887,928	269,806	30.4%	250,641
General Services.....	9,013,490	3,057,379	33.9%	2,870,190
Total Staff Agencies	\$ 33,667,496	\$ 10,847,596	32.2%	\$ 10,630,605
Operating Agencies				
Transportation & Environmental Services....	\$ 20,334,156	\$ 7,167,348	35.2%	\$ 6,425,614
Fire.....	26,746,272	8,815,643	33.0%	8,516,768
Police.....	37,841,737	12,927,637	34.2%	12,119,203
Transit Subsidies.....	3,628,778	777,736	21.4%	945,107
Housing.....	1,200,460	294,372	24.5%	257,929
Mental Health/Mental Retardation/ Substance Abuse.....	601,688	316,992	52.7%	289,103
Health.....	6,926,459	856,744	12.4%	1,650,621
Human Services.....	7,018,241	2,375,863	33.9%	2,196,608
Historic Resources.....	2,145,583	740,912	34.5%	649,115
Recreation.....	15,044,602	5,533,662	36.8%	5,184,155
Total Operating Agencies	\$ 121,487,976	\$ 39,806,909	32.8%	\$ 38,234,223
Education				
Schools.....	\$ 115,329,680	\$ 27,967,269	24.2%	\$ 25,548,096
Other Educational Activities.....	13,246	6,623	50.0%	6,462
Total Education	\$ 115,342,926	\$ 27,973,892	24.3%	\$ 25,554,558
Capital, Debt Service and Miscellaneous				
Debt Service.....	\$ 17,739,094	\$ 1,229,826	6.9%	\$ 1,306,001
Non-Departmental.....	7,598,339	2,812,939	37.0%	2,189,219
Cash Capital.....	14,200,000	14,200,000	100.0%	12,020,000
Contingent Reserves.....	950,000	-	-	-
Total Capital, Debt Service and Miscellaneous	\$ 40,487,433	\$ 18,242,765	45.1%	\$ 15,515,220
TOTAL EXPENDITURES	\$ 341,681,942	\$ 107,628,720	31.5%	\$ 99,636,771
Cash Match (Mental Health/Mental Retardation/ Substance Abuse, Human Services and Library)				
Transfers to the Special Revenue Fund.....	26,655,082	-	0.0%	-
Transfer to DASH.....	4,834,200	1,609,789	33.3%	1,359,582
TOTAL EXPENDITURES & TRANSFERS	\$ 373,171,224	\$ 109,238,509	29.3%	\$ 100,996,353

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**CITY OF ALEXANDRIA  
SELECTED ECONOMIC INDICATORS**

	<u>Current Year</u>	<u>Prior Year</u>	<u>Percent Change</u>
<b><u>Consumer Price Index (CPI-U)</u></b> for the Washington-Baltimore, DC-MD-VA-WV Area (As of September 30, 2002) (Source: Published bi-monthly by United States Department of Labor, Bureau of Labor Statistics)			
	114.0	111.7	+2%
<b><u>Unemployment Rates</u></b>			
<b>Alexandria</b>	3.5%	3.3%	+6%
<b>Virginia</b> (As of September 30, 2002) (Source: United States Department of Labor, Bureau of Labor Statistics)	4.1%	4.0%	+3%
<b>United States</b> (As of October 31, 2002) (Source: United States Department of Labor, Bureau of Labor Statistics)	5.7%	5.4%	+6%
<b><u>Interest Rates</u></b> (As of October 31, 2002)			
<b>Prime Rate</b>	4.75%	5.50%	-14%
<b>Federal Fund Rate</b> (Source: SunTrust Economic Monitor)	1.76%	2.51%	-30%
<b><u>New Business Licenses</u></b> (During October) (Source: Finance Department, Business Tax Branch)			
	90	109	-17%
<b><u>Office Vacancy Rates</u></b> (As of September 30, 2002)			
<b>Alexandria</b>	10.7%	8.6%	+24%
<b>Northern Virginia</b>	16.9%	11.0%	+54%
<b>Washington DC Metro Area</b> (Source: Grubb & Ellis)	12.8%	8.6%	+49%
<b><u>New Commercial Construction</u></b> (As of September 30, 2002)			
<b>Number of New Building Permits</b>	3	8	-63%
<b>Value of New Building Permits</b> (Source: Fire Department Code Enforcement Bureau)	\$14.7 million	\$29.7 million	-51%
<b><u>Residential Real Estate Indicators</u></b> (for the twelve months ended September 30, 2002)			
<b>Residential Dwelling Units Sold</b>	2,890	3,092	-7%
<b>Average Residential Sales Price</b> (Source: Department of Real Estate Assessments)	\$278,532	\$246,914	+13%

## State Budget Reductions Affecting the City of Alexandria: FY 03

Program	Existing State Appropriation	Estimated Reduction
1. HB 599	\$6,129,000	\$275,805
2. CSB	\$3,838,685	\$383,868
3. Commonwealth's Attorney	\$848,000	\$59,360
4. Finance	\$559,000	\$61,490
5. Clerk of Courts	\$839,000	\$92,290
6. Social Services	\$4,081,700	\$40,817 <sup>1</sup>
7. Voter Registration	\$66,000	\$4,800
8. Aging	\$171,900	\$18,910
9. Arlandria Clinic <sup>2</sup>	\$112,500	\$16,875
10. Library	\$240,000	\$37,000
11. NVDH (Detention) State Block Grant <sup>3</sup>	\$1,561,950	\$234,293
12. Project Discovery	\$70,000	\$10,500
13. SBDC State funds <sup>4</sup>	\$23,000	\$23,000
14. Rental Vehicle Taxes	\$26,000	\$2,600
15. Lloyd House	\$28,371	\$4,256
16. Fort Ward	\$28,371	\$4,256
17. Hydrilla	\$14,185	\$2,128
ESTIMATED TOTAL REDUCTION (as of 10/23/02)		\$1,272,248

Funds for Homeless Intervention programs and the Court Services Unit will also be reduced by unknown amounts. State general funds for Healthy Families will be replaced with federal TANF funds; Healthy Families will be unable to leverage additional federal funds with TANF funds, which it can now do with state general funds. Funding for local post-release programs for prisoners is being completely eliminated. Finally, staff expects to learn new and more detailed information about specific cuts in the coming weeks.

<sup>1</sup>May be replaced with federal funds.

<sup>2</sup>The Arlandria Clinic reduction will probably not occur until FY 2004.

<sup>3</sup>The Northern Virginia Detention Home provides services to Alexandria, Arlington, and Falls Church. Alexandria is responsible for providing approximately a third of its local revenue. The above appropriations represent state funds going to the facility on behalf of all member localities.

<sup>4</sup>The Small Business Development Center also receives about \$145,000 in federal, City, and private funds; no reduction of these funds is proposed as a part of the Governor's plans.